

**MOBILE TELECOMMUNICATIONS COMPANY SAUDI  
ARABIA**  
(A SAUDI JOINT STOCK COMPANY)

**UNAUDITED INTERIM FINANCIAL STATEMENTS  
AND AUDITORS' LIMITED REVIEW REPORT  
FOR THE THREE MONTH PERIOD ENDED  
31 MARCH 2015**

**MOBILE TELECOMMUNICATIONS COMPANY SAUDI ARABIA**  
(A SAUDI JOINT STOCK COMPANY)

**UNAUDITED INTERIM FINANCIAL STATEMENTS AND AUDITORS' LIMITED  
REVIEW REPORT  
FOR THE THREE MONTH PERIOD ENDED 31 MARCH 2015**

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To the shareholders  
Mobile Telecommunications Company Saudi Arabia  
(A Saudi joint stock company)  
Riyadh, Saudi Arabia

### **Scope of Review**

We have reviewed the accompanying interim balance sheet of **Mobile Telecommunications Company Saudi Arabia** (a Saudi joint stock company) ("the Company") as at 31 March 2015, and the related interim statement of operations, cash flows and changes in shareholders' equity for the three-month period ended 31 March 2015 including the related notes 1 to 13 which form an integral part of these interim financial statements. These interim financial statements are the responsibility of the Company's management and have been prepared by them and presented to us with all the necessary information and explanation which we required.

We conducted our limited review in accordance with the interim financial reporting standard issued by the Saudi Organization for Certified Public Accountants. A limited review consists principally of applying analytical procedures to financial data and information and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards in the Kingdom of Saudi Arabia, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

### **Review Results**

Based on our limited review, we are not aware of any material modifications that should be made to the accompanying interim financial statements for them to be in conformity with generally accepted accounting standards in the Kingdom of Saudi Arabia.

### **Emphasis of matters**

We draw attention to the following matters:

1. As disclosed in Note 1 and 3 to the accompanying interim financial statements, the Company has incurred losses for the period from 1 January 2015 to 31 March 2015 amounting to SR 257 million and has accumulated deficit amounting to SR 563 million as of that date. The Company's Board of Directors have approved a revised business plan on 20 January 2015 and currently the Company is working with the financing banks to reach a final understanding on the requirements of the financing agreement, including the covenants applicable beyond March 31, 2015.
2. As disclosed in Note 1 to the accompanying interim financial statements, during the three month period ended 31 March 2015, the restructuring of the Company's share capital was undertaken and the accumulated deficit, through to 30 September 2014, has been extinguished through the capital reduction process.

3. As disclosed in Note 9.2 to the accompanying interim financial statements which outlines that as of 31 March 2015 the Company is a party to an arbitration proceedings with Etihad Etisalat Company ("Mobily") in relation to claims raised by Mobily against the Company in the amount of SAR 2.2 billion plus penalties that were rejected in their majority by the Company; thus resulting in a dispute arising from the Services Agreement entered into by the Company and Mobily on 6 May 2008. The arbitration sessions which are in progress, started effective 20 December 2014, and the ultimate outcome from the arbitration and resulting effect, if any, on the Company's accounts cannot be reliably determined at this stage.

Deloitte & Touche  
Bakr Abulkhair & Co.



Ehsan A. Makhdoum  
License No. 358

Rajab 2, 1436  
April 21, 2015



**MOBILE TELECOMMUNICATIONS COMPANY SAUDI ARABIA**  
(A SAUDI JOINT STOCK COMPANY)

**INTERIM BALANCE SHEET**

		31 March 2015 SR'000 (Unaudited)	31 December 2014 SR'000 (Audited)	31 March 2014 SR'000 (Unaudited)
	Notes			
<b>ASSETS</b>				
<b>Current assets</b>				
Cash and cash equivalents		1,468,678	1,092,117	1,476,054
Accounts receivable, net		1,363,605	1,393,689	1,333,476
Inventories, net		81,125	62,680	132,762
Prepaid expenses and other assets		1,338,847	1,339,901	708,055
<b>Total current assets</b>		<b>4,252,255</b>	<b>3,888,387</b>	<b>3,650,347</b>
<b>Non-current assets</b>				
Property and equipment, net		4,418,351	4,296,435	4,236,125
Intangible assets, net		17,236,693	17,469,010	18,143,865
Other non-current assets		193,131	211,694	265,404
<b>Total non-current assets</b>		<b>21,848,175</b>	<b>21,977,139</b>	<b>22,645,394</b>
<b>TOTAL ASSETS</b>		<b>26,100,430</b>	<b>25,865,526</b>	<b>26,295,741</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>				
<b>Current liabilities</b>				
Long-term borrowings – current portion	3	200,005	200,005	200,005
Notes payable		63,047	-	10,811
Accounts payable		301,554	265,541	585,351
Due to related parties		3,546	3,631	41,609
Deferred revenue		584,296	515,811	420,591
Accrued expenses and other liabilities		3,017,553	2,912,633	2,725,238
<b>Total current liabilities</b>		<b>4,170,001</b>	<b>3,897,621</b>	<b>3,983,605</b>
<b>Non-current liabilities</b>				
Long-term borrowings – non-current portion	3	11,087,029	11,187,030	11,287,033
Advances from shareholders	4	3,651,272	3,475,657	3,206,605
Due to related parties		797,870	785,833	752,022
Other non-current liabilities		1,067,837	938,287	543,353
Derivative financial instruments	5	94,513	66,830	52,954
Provision for employees' end-of-service benefits		52,311	50,264	41,086
<b>Total non-current liabilities</b>		<b>16,750,832</b>	<b>16,503,901</b>	<b>15,883,053</b>
<b>TOTAL LIABILITIES</b>		<b>20,920,833</b>	<b>20,401,522</b>	<b>19,866,658</b>
<b>SHAREHOLDERS' EQUITY</b>				
Share capital	6	5,837,292	10,801,000	10,801,000
Hedging reserve	5	(94,513)	(66,830)	(52,954)
Accumulated deficit	1	(563,182)	(5,270,166)	(4,318,963)
<b>Total shareholders' equity</b>		<b>5,179,597</b>	<b>5,464,004</b>	<b>6,429,083</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>		<b>26,100,430</b>	<b>25,865,526</b>	<b>26,295,741</b>

  
Farhan Bin Naif Al Jarba - Chairman

  
Hassan Kabbani - CEO

  
Wissam Jarhat - CFO

The accompanying notes form an integral part of these interim financial statements

**MOBILE TELECOMMUNICATIONS COMPANY SAUDI ARABIA**  
(A SAUDI JOINT STOCK COMPANY)

**INTERIM STATEMENT OF OPERATIONS (Unaudited)**  
**FOR THE THREE MONTH PERIOD ENDED 31 MARCH 2015**

	Notes	2015 SR'000	2014 SR'000
Revenue		1,678,321	1,545,773
Cost of revenue and sales		(803,892)	(747,117)
<b>Gross profit</b>		<b>874,429</b>	<b>798,656</b>
<b>Operating expenses</b>			
Distribution and marketing expenses		(467,415)	(444,378)
General and administrative expenses		(59,137)	(54,749)
Depreciation and amortization		(406,925)	(426,712)
<b>Total operating expenses</b>		<b>(933,477)</b>	<b>(925,839)</b>
<b>Operating loss</b>		<b>(59,048)</b>	<b>(127,183)</b>
<b>Other income / (expenses)</b>			
Finance charges		(199,229)	(193,907)
Commission income		1,553	2,728
<b>NET LOSS FOR THE PERIOD</b>		<b>(256,724)</b>	<b>(318,362)</b>
<b>Loss per share (in Saudi Riyals):</b>			
- From operating loss for the period	7	(0.07)	(0.22)
- From non-operating loss for the period		(0.22)	(0.33)
- From net loss for the period		(0.29)	(0.55)

  
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**MOBILE TELECOMMUNICATIONS COMPANY SAUDI ARABIA**  
(A SAUDI JOINT STOCK COMPANY)

**INTERIM STATEMENT OF CASH FLOWS (Unaudited)**  
**FOR THE THREE MONTH PERIOD ENDED 31 MARCH 2015**

	2015	2014
	SR'000	SR'000
<b>OPERATING ACTIVITIES</b>		
Net loss for the year	(256,724)	(318,362)
<b>Adjustments to reconcile net loss for the year to net cash from operating activities:</b>		
Provision for doubtful receivables and other assets	14,072	13,794
Depreciation and amortization	406,925	426,712
Other provisions	(440)	10
Finance charges	199,229	193,907
Provision for employees' end-of-service benefits, net	2,047	2,296
<b>Operating income before changes in working capital</b>	<b>365,109</b>	<b>318,357</b>
<b>Changes in working capital</b>		
Accounts receivable	16,012	(126,415)
Inventories	(18,445)	8,178
Prepaid expenses and other current and non-current assets	19,617	(30,134)
Accounts payable	(214,721)	115,505
Due to related parties	11,952	11,215
Deferred revenue	68,485	13,682
Accrued expenses and other current and non-current liabilities	212,927	255,965
<b>Cash flows generated from operating activities</b>	<b>460,936</b>	<b>566,353</b>
Financial charges paid	(129,753)	(133,741)
<b>Net cash generated from operating activities</b>	<b>331,183</b>	<b>432,612</b>
<b>INVESTING ACTIVITIES</b>		
Purchase of property and equipment	(35,382)	(153,747)
Purchase of intangible assets	(10,408)	(35,737)
<b>Net cash used in investing activities</b>	<b>(45,790)</b>	<b>(189,484)</b>
<b>FINANCING ACTIVITIES</b>		
Notes payable	63,047	(24,062)
Long-term borrowing	-	(100,002)
Advances from shareholders	28,121	63,904
<b>Net cash generated from (used in) financing activities</b>	<b>91,168</b>	<b>(60,160)</b>
<b>Net change in cash and cash equivalents</b>	<b>376,561</b>	<b>182,968</b>
Cash and cash equivalents at beginning of the year	1,092,117	1,293,086
Cash and cash equivalents at end of the year	<b>1,468,678</b>	<b>1,476,054</b>

  
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**MOBILE TELECOMMUNICATIONS COMPANY SAUDI ARABIA**  
(A SAUDI JOINT STOCK COMPANY)

**INTERIM STATEMENT OF CASH FLOWS(Unaudited) (Continued)**  
**FOR THE THREE MONTH PERIOD ENDED 31 MARCH 2015**

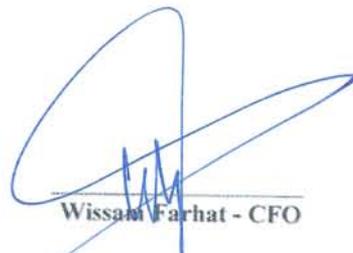
	2015 SR'000	2014 SR'000
<b>Non-cash transactions:</b>		
Adjustment to property and equipment with corresponding effect to accounts payable	250,734	26,524
Adjustment to advances from shareholders with corresponding effect to financial charges	47,493	108,462
Adjustment to advances from shareholders with corresponding effect to long - term borrowing facilities	100,001	-
Changes in fair value of derivative financial instruments and corresponding debit to shareholders' equity	27,683	52,954



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Hassan Kabbani - CEO



Wissam Farhat - CFO

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**MOBILE TELECOMMUNICATIONS COMPANY SAUDI ARABIA**  
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**INTERIM STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY (Unaudited)**  
**FOR THE THREE MONTH PERIOD ENDED 31 MARCH 2015**

	Note	Share capital SR'000	Hedging reserve SR'000	Accumulated deficit SR'000	Total shareholders' equity SR'000
Balance as at 1 January 2015		10,801,000	(66,830)	(5,270,166)	5,464,004
Decrease of share capital	1	(4,963,708)	-	4,963,708	-
Net loss for the period		-	-	(256,724)	(256,724)
Derivative financial instruments	5	-	(27,683)	-	(27,683)
<b>Balance as at 31 March 2015</b>		<b>5,837,292</b>	<b>(94,513)</b>	<b>(563,182)</b>	<b>5,179,597</b>
Balance as at 1 January 2014		10,801,000	(41,727)	(4,000,601)	6,758,672
Net loss for the period		-	-	(318,362)	(318,362)
Derivative financial instruments		-	(11,227)	-	(11,227)
<b>Balance as at 31 March 2014</b>		<b>10,801,000</b>	<b>(52,954)</b>	<b>(4,318,963)</b>	<b>6,429,083</b>

  
Farhan Bin Naif Al Jarba - Chairman

  
Hassan Kabbani - CEO

  
Wissam Farhat - CFO

The accompanying notes form an integral part of these interim financial statements

**NOTES TO THE INTERIM FINANCIAL STATEMENTS (Unaudited)**  
**FOR THE THREE MONTH PERIOD ENDED 31 MARCH 2015**

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**1. ORGANIZATION AND ACTIVITIES**

Mobile Telecommunications Company Saudi Arabia (the "Company" or "Zain KSA"), provides mobile telecommunication services in the Kingdom of Saudi Arabia in which it operates, purchases, delivers, installs, manages and maintains mobile telephone services.

The Company is a "Saudi Joint Stock Company" established pursuant to the Ministerial Resolutions No. 176 dated 25 Jumada I 1428H (corresponding to 11 June 2007) and No. 357 dated 28 Dhu Al-Hijjah 1428H (corresponding to 7 January 2008), Royal Decree No. 48/M dated 26 Jumada I 1428H (corresponding to 12 June 2007) and Commercial Registration No. 1010246192 issued in Riyadh, Kingdom of Saudi Arabia on 4 Rabi Awal 1429H (corresponding to 12 March 2008) to operate as the 3rd GSM public mobile cellular and technology neutral license in the Kingdom of Saudi Arabia for twenty five (25) years.

The registered address of the Company is P.O. Box 295814, Riyadh 11351, Kingdom of Saudi Arabia.

The Company incurred losses for the period from 1 January 2015 to 31 March 2015 amounting to SR 257 million and has accumulated deficit amounting to SR 563 million as of that date. As of the third quarter 2014, the Company's results were below its previous approved business plan and also fell below one of the loan covenants which is not considered as an event of default per the Murabaha Financing Agreement. During the fourth quarter of 2014, the management of the Company met with the financing banks to discuss the variance from its previous approved business plan and have obtained the required waiver for the above-mentioned breach as of 30 September 2014 and also agreed with the financing banks to revise covenant calculations for 31 December 2014 and 31 March 2015. The Company's Board of Directors have approved a revised business plan on 20 January 2015 and currently the Company is working with the financing banks to reach a final understanding on the requirements of the financing agreement, including the covenants applicable beyond March 31, 2015.

The Company's management believes that the Company will be successful in meeting its obligations in normal course of operations. The directors of the Company have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future.

**Reduction of Share Capital to absorb accumulated deficit**

After obtaining the required approvals from the regulatory bodies, an Extraordinary General Assembly was held on 25 February 2015 and the following resolutions were approved:

- Approval of the Board of director's resolution to reduce the Company's share capital from SR 10,801,000,000 to SR 5,837,291,750 and accordingly to decrease the number of shares from 1,080,100,000 shares to 583,729,175 shares to offset the Company's accumulated deficit till 30 September 2014.

**NOTES TO THE INTERIM FINANCIAL STATEMENTS (Unaudited) (Continued)**  
**FOR THE THREE MONTH PERIOD ENDED 31 MARCH 2015**

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**1. ORGANIZATION AND ACTIVITIES (Continued)**

**Reduction of Share Capital to absorb accumulated deficit (continued)**

- Approval of the modification of clauses 7 and 8 of the by-laws of the Company to reflect the effect of the capital reduction. The modifications sought were as follows:
  - Clause (7) after modification: The Company's share capital is (SR 5,837,291,750) divided into (583,729,175) ordinary equal shares with a nominal value of (SR 10) per share).
  - Clause (8) after modification: The shareholders have subscribed in (583,729,175) shares, at a par value SR 10 per share, for a total value of (SR 5,837,291,750).

Accordingly, the Company reduced its share capital from SR 10,801,000,000 to SR 5,837,291,750 and the total number of shares decreased from 1,080,100,000 shares to 583,729,175 shares. The principal reason for the proposed capital reduction is to write-off all of the Company's accumulated losses up to 30 September 2014 representing approximately 45.96% of the Capital, as part of instituting its turnaround plan and pursuant to a recommendation by the Executive Management of the Company and its External Advisers.

**2. SIGNIFICANT ACCOUNTING POLICIES**

The principal accounting policies applied in the preparation of these interim financial statements are set out below. These policies have been consistently applied to all periods presented, unless otherwise stated.

**Basis of preparation**

The accompanying interim financial statements have been prepared under the historical cost convention on the accrual basis of accounting and in compliance with accounting standards promulgated by the Saudi Organization for Certified Public Accountants ("SOCPA"). These interim financial statements should be read in conjunction with the annual audited financial statements for the year ended 31 December 2014.

The significant accounting policies used for the preparation of the interim financial statements mentioned below are in conformity with the accounting policies described in the audited financial statements for the year ended 31 December 2014.

**Period of the financial statements**

The Company's financial year begins on January 1 and ends on 31 December of each Gregorian year. The interim financial statements have been prepared in accordance with SOCPA's Standard of Review of Interim Financial Reporting, on the basis of integrated periods, which views each interim period as an integral part of the financial year. Accordingly, revenues, gains, expenses and losses of the period are recognized during the period. The interim financial statements include all adjustments, comprising mainly of normal recurring accruals, considered necessary by the management to present fairly the statements of financial position, results of operations and cash flows.

The results of operations for the interim period may not represent a proper indication of the annual results of operations.

**NOTES TO THE INTERIM FINANCIAL STATEMENTS (Unaudited) (Continued)**  
**FOR THE THREE MONTH PERIOD ENDED 31 MARCH 2015**

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**2. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Critical accounting estimates and judgments**

The preparation of interim financial statements in conformity with generally accepted accounting standards in the Kingdom of Saudi Arabia requires the use of certain critical estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the reporting date and the reported amounts of revenues and expenses during the reporting period. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results.

**Segment reporting**

(a) Business segment

A business segment is a group of assets, operations or entities:

- (i) engaged in revenue producing activities;
- (ii) results of its operations are continuously analysed by management in order to make decisions related to resource allocation and performance assessment; and
- (iii) financial information is separately available.

(b) Geographical segment

A geographical segment is a group of assets, operations or entities engaged in revenue producing activities within a particular economic environment that are subject to risks and returns different from those operating in other economic environments.

**Foreign currency translations**

(a) Reporting currency

These interim financial statements are presented in Saudi Riyals (“SR”) which is the reporting currency of the Company.

(b) Transactions and balances

Foreign currency transactions are translated into Saudi Riyals using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at the period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the interim statement of operations.

**Cash and cash equivalents**

Cash and cash equivalents include cash in hand and with banks and other short-term highly liquid investments, if any, with maturities of three months or less from the purchase date.

**NOTES TO THE INTERIM FINANCIAL STATEMENTS (Unaudited) (Continued)**  
**FOR THE THREE MONTH PERIOD ENDED 31 MARCH 2015**

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**2. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Accounts receivable**

Accounts receivable are shown at their net realizable values, which represent billed and unbilled usage revenues net of allowances for doubtful accounts. A provision against doubtful receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables. Such provisions are charged to the interim statement of operations and reported under “distribution and marketing expenses”. When an account receivable is uncollectible, it is written-off against the provision for doubtful receivables. Any subsequent recoveries of amounts previously written-off are credited against “distribution and marketing expenses” in the interim statement of operations.

**Inventories**

Inventories are carried at the lower of cost or net realizable value. Cost is determined using the weighted average method. Net realizable value is the estimated selling price in the ordinary course of business, less the costs of completion and selling expenses.

Inventories sold to distributors on which significant risk and reward remains with the Company are recorded as inventory on consignment.

**Property and equipment**

Property and equipment are carried at cost less accumulated depreciation except for capital work in progress which is carried at cost. Depreciation is charged to the interim statement of operations, using the straight-line method, to allocate the costs of the related assets to their residual values over the following estimated useful lives of the assets:

	<u>Years</u>
	<b>Shorter of lease term or useful life</b>
Leasehold improvements	<b>3 - 10</b>
Telecommunication equipment	<b>20</b>
Civil works (telecommunications)	<b>3</b>
Information technology systems	<b>5</b>
Information technology servers	<b>5</b>
Furniture and fixtures	<b>5</b>
Office equipment	<b>5</b>
Vehicles and other transportation equipment	<b>5</b>

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are included in the interim statement of operations.

Maintenance and normal repairs which do not materially extend the estimated useful life of an asset are charged to the interim statement of operations as and when incurred. Major renewals and improvements, if any, are capitalized and the assets so replaced are retired.

**NOTES TO THE INTERIM FINANCIAL STATEMENTS (Unaudited) (Continued)**  
**FOR THE THREE MONTH PERIOD ENDED 31 MARCH 2015**

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**2. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Intangible assets**

License fee is stated at cost less accumulated amortization. The amortization period is 25 years and is primarily determined by reference to the unexpired license period, the conditions for license renewal and whether the license is dependent on specific technologies. Amortization is charged to the interim statement of operations on a straight-line basis over the estimated useful life from the commencement of service of the network.

Rights of use of various telecommunication services are recorded upon acquisition at cost and are amortized starting from the date of service on a straight line basis over their useful lives or statutory duration, whichever is shorter.

Computer software licenses are capitalized on the basis of the costs incurred to acquire and bring the specific software into use. These costs are amortized over their estimated useful lives, being 2 to 5 years. Costs that are directly associated with the production of identifiable and unique software products controlled by the Company and that are expected to generate economic benefits exceeding one year are recognized as intangible assets.

Costs associated with maintaining the software are recognized as an expense when they are incurred.

**Impairment of non-current assets**

Non-current assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the carrying amount of the asset exceeds its recoverable amount which is the higher of an asset's fair value less cost to sell and value in use. For the purpose of assessing impairment, assets are grouped at lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-current assets other than intangible assets that suffered impairment are reviewed for possible reversal of impairment at each reporting date. Where an impairment loss subsequently reverses, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but the increased carrying amount should not exceed the carrying amount that would have been determined, had no impairment loss been recognized for the assets or cash-generating unit in prior years. A reversal of an impairment loss is recognized as income immediately in the interim statement of operations. Impairment losses recognized on intangible assets are not reversible.

**Borrowings**

Borrowings are recognized at the proceeds received, net of transaction costs incurred. Borrowing costs that are directly attributable to the acquisition, construction or production of qualifying assets are capitalized as part of those assets. Other borrowing costs are charged to the interim statement of operations.

**NOTES TO THE INTERIM FINANCIAL STATEMENTS (Unaudited) (Continued)**  
**FOR THE THREE MONTH PERIOD ENDED 31 MARCH 2015**

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**2. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Accounts payable and accruals**

Liabilities are recognized for amounts to be paid for goods and services received, whether or not billed to the Company.

**Provisions**

Provisions are recognized when; the Company has a present legal or constructive obligation as a result of a past event; it is probable that an outflow of resources will be required to settle the obligation; and the amount can be reliably estimated.

**Zakat**

The Company is subject to zakat in accordance with the regulations of the Department of Zakat and Income Tax (the "DZIT"). Provision for zakat, if any, is charged to the interim statement of operations. Additional amounts payable, if any, at the finalization of final assessments are accounted for when such amounts are determined.

The Company withholds taxes on certain transactions with non-resident parties in the Kingdom of Saudi Arabia as required under Saudi Arabian Income Tax Law.

**Employees' end-of-service benefits**

Employee end-of-service benefits required by Saudi Labour and Workman Law are accrued by the Company and charged to the interim statement of operations. The liability is calculated at the current value of the vested benefits to which the employee is entitled, should the employee leave at the interim balance sheet date. Termination payments are based on employees' final salaries and allowances and their cumulative years of service, as stated in the laws of Saudi Arabia.

**Contingent Liabilities**

A contingent liability is a possible obligation which may arise from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Company, or a present obligation that arises from past events but is not recognized because it is not probable that an outflow of resources embodying economic benefits will be required to settle obligation, or the amount of the obligation cannot be measured with sufficient reliability.

**Revenues**

The Company's revenue mainly comprises revenue from mobile telecommunications. Revenue from mobile telecommunications comprises amounts charged to customers in respect of airtime usage, text messaging, the provision of other mobile telecommunications services, including data services and information provision, fees for connecting users of other fixed line and mobile networks to the Company's network.

**NOTES TO THE INTERIM FINANCIAL STATEMENTS (Unaudited) (Continued)**  
**FOR THE THREE MONTH PERIOD ENDED 31 MARCH 2015**

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**2. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Airtime used by customers is invoiced and recorded as part of a periodic billing cycle and recognized as revenue over the related access period. Unbilled revenue resulting from services already provided from the billing cycle date to the end of each accounting period is accrued and unearned revenue from services to be provided in periods after each accounting period is deferred. Revenue from the sale of prepaid credit is deferred until such time as the customer uses the airtime, or the credit expires.

Revenue from data services and information provision is recognized when the Company has performed the related service and, depending on the nature of the service, is recognized either at the gross amount billed to the customer or the amount receivable by the Company as commission for facilitating the service.

Incentives are provided to customers in various forms as part of a promotional offering. Where such incentives are provided in the context of an arrangement that comprises other deliverables, revenue representing the fair value of the incentive, relative to other deliverables provided to the customer as part of the same arrangement, is deferred and recognized in line with the Company's performance of its obligations relating to the incentive. In arrangements including more than one deliverable, the arrangement consideration is allocated to each deliverable based on the fair value of the individual element. The Company generally determines the fair value of individual elements based on prices at which the deliverable is regularly sold on a standalone basis.

**Distribution, marketing, general and administrative expenses**

Distribution, marketing and general and administrative expenses include direct and indirect costs not specifically part of cost of revenue as required under generally accepted accounting standards. Allocations between distribution, marketing and general and administrative expenses and cost of revenue, when required, are made on a consistent basis.

**Operating leases**

Lease of property and equipment under which all the risks and benefits of ownership are effectively retained by the lessor are classified as operating leases. Rental expenses under operating leases are charged to the interim statement of operations on a straight-line basis over the period of the lease.

**Derivative financial instruments**

The Company uses derivative financial instruments to hedge its interest rate risk on the floating rate Syndicate Murabaha facility. The Company designates these derivatives financial instruments as cash flow hedges in accordance with the approved policies and consistent with the Company's risk management strategy. The Company does not use derivative financial instruments for speculative purposes. These derivative financial instruments are measured at fair value. The effective portions of changes in the fair value of derivatives are recognized in hedging reserve under the interim statement of shareholders' equity. The gain or loss relating to the ineffective portion is recognized immediately in the interim statement of operations. Gains or losses recognized initially in hedging reserve are transferred to the interim statement of operations in the period in which the hedged item impacts the interim statement of operations.

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**NOTES TO THE INTERIM FINANCIAL STATEMENTS (Unaudited) (Continued)**  
**FOR THE THREE MONTH PERIOD ENDED 31 MARCH 2015**

**3. LONG TERM BORROWINGS FACILITIES**

	<b>31 March 2015 (Unaudited) SR'000</b>	31 December 2014 (Audited) SR'000	31 March 2014 (Unaudited) SR'000
Export credit facility - current Portion (3.3)	<b>200,005</b>	200,005	200,005
	<b>200,005</b>	200,005	200,005
Syndicate Murabaha facility – non-current portion (3.1)	<b>8,630,769</b>	8,630,769	8,630,769
Long term facility from local commercial bank (3.2)	<b>2,250,000</b>	2,250,000	2,250,000
Export credit facility – non-current portion (3.3)	<b>206,260</b>	306,261	406,264
	<b>11,087,029</b>	11,187,030	11,287,033
Total	<b>11,287,034</b>	11,387,035	11,487,038

**3.1** Syndicated Murabaha Facility of approximately SR 9.75 billion was arranged by Banque Saudi Fransi in July 2009. This Murabaha Facility consists of a SR portion totalling SR 7.09 billion and a USD portion totalling USD 710 million (equivalent to SR 2.66 billion).

Financing charges as specified under the Murabaha Facility are payable in quarterly instalments over the life of the loan. As per the terms of the Murabaha Financing Agreement the Company exercised its two (2) options to extend the initial maturity date (12 August 2011) for six (6) months each, totalling the renewal of the facility for one (1) full year with the final maturity date is 27 July 2012. Subsequently, the Company has successfully obtained several approvals to extend the facility until 31 July 2013. During 2013, the Company has partially settled an amount of SR 750 million out of the cash proceeds from the rights issue transaction.

On 31 July 2013, the Company has signed an amended and restated “Murhabaha financing Agreement” with a consortium of banks which also includes existing Murabaha Facility Investors to extend the maturity date of its Murabaha Facility for 5 years ending 30 June 2018 which was due on 31 July 2013. The new facility has been restructured as an amortising facility, 25% of which will be due during years 4 to 5 of the life of the facility, as mandatory minimum amount due, with 75% due at maturity date. The Company has partially repaid the facility, utilizing a portion of its internal cash resources, and the current outstanding principal stands at SR 8.6 billion, SR portion totalling 6.3 billion and USD portion totalling 0.6 billion (SR 2.3 billion).

Financing charges as specified under the Murabaha financing agreement are payable in quarterly instalments over 5 years. The new facility is secured partially by a guarantee from Mobile Telecommunications Company K.S.C and pledge of shares of the Company owned by some of the founding shareholders.

**NOTES TO THE INTERIM FINANCIAL STATEMENTS (Unaudited) (Continued)**  
**FOR THE THREE MONTH PERIOD ENDED 31 MARCH 2015**

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**3. LONG TERM BORROWINGS FACILITIES (Continued)**

Financial and other covenants imposed by the financing banks are:

- a. Assignment of certain contracts and receivables;
- b. Pledge of insurance contracts and operating accounts;
- c. Loans and guarantees restrictions to customers, distributors, dealers, retailers, wholesalers and employees;
- d. No further financial indebtedness, pari passu, insurance on all assets; and
- e. EBITDA and leverage level.

As of the third quarter 2014, the Company's results were below its previous approved business plan and also fell below one of the loan covenants which is not considered as an event of default per the Murabaha Financing Agreement. During the fourth quarter of 2014, the management of the Company met with the financing banks to discuss the variance from its previous approved business plan and have obtained the required waiver for the above-mentioned breach as of 30 September 2014 and also agreed with the financing banks to revise covenant calculations for 31 December 2014 and 31 March 2015. The Company's Board of Directors have approved a revised business plan on 20 January 2015 and currently the Company is working with the financing banks to reach a final understanding on the requirements of the financing agreement, including the covenants applicable beyond March 31, 2015.

**3.2** This facility consists of a SAR portion totalling SAR 1,875 million and a USD portion totalling USD 100 million (equivalent SAR 375 million) and is secured by a guarantee provided by Mobile Telecommunications Company K.S.C. This facility attracts financing charges as specified in the agreement, and is subordinated to the existing Murabaha Facility and was due for repayment on 3 April 2013. The Company has obtained the approval from financing banks to extend this long term facility until 5 June 2013.

On 5 June 2013 the Company has signed a new long-term borrowing facility agreement amounting to SAR 2.25 billion with three years maturity to refinance the existing facility. The new facility consists of a SAR portion totalling SAR 1,875 million and a USD portion totalling 100 million provided by a syndicate of four banks. This facility attracts financing charges as specified in the agreement, and is subordinated to the existing Murabaha Facility, and secured by an unconditional and irrevocable guarantee by Mobile Telecommunications Company K.S.C. The new facility will be repaid in one bullet payment at the maturity date of 5 June, 2016.

**3.3** On 20 June 2012 an Export Credit Agency Facility Agreement having two tranches (A and B) totalling to USD 325 million was signed between the Company and some international banks. This facility is secured by a guarantee provided by Mobile Telecommunications Company K.S.C. and subordinated to the Murabaha Facility. The purpose of this facility is to:

- 1- Repay amounts due to one of the Company's technical vendors; and
- 2- To finance further new expansion plans provided by the same technical vendor.

The Company has utilized tranche A (USD 155 million) in full and also utilized USD 98 million out of USD 170 million of tranche B. The remaining unutilized portion of tranche B has been cancelled during the first quarter of 2013.

Financing charges as specified under this facility agreement are payable in semi-annual instalments over the life of the loan. Repayment will take place over five (5) years on a semi-annual basis starting July 2012 for tranche A (totalling USD 155 million) and July 2013 for tranche B (totalling USD 98 million). As at 31 March 2015, all ten (31 December 2014: 8) instalments were repaid in full.

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**NOTES TO THE INTERIM FINANCIAL STATEMENTS (Unaudited) (Continued)**  
**FOR THE THREE MONTH PERIOD ENDED 31 MARCH 2015**

**3. LONG TERM BORROWINGS FACILITIES (Continued)**

3.4 The maturity details of long term borrowings facilities as at March 31 are as follows:

	<b>31 March 2015 (Unaudited) SR'000</b>	31 December 2014 (Audited) SR'000	31 March 2014 (Unaudited) SR'000
2014	-	-	100,003
2015	<b>100,004</b>	200,005	200,005
2016	<b>2,881,543</b>	2,881,543	2,881,543
2017	<b>1,832,410</b>	1,832,410	1,832,410
2018	<b>6,473,077</b>	6,473,077	6,473,077
	<b>11,287,034</b>	11,387,035	11,487,038

**4. ADVANCES FROM SHAREHOLDERS**

In accordance with the arrangements agreed with the shareholders during 2009, some of the founding shareholders have provided advances to the Company. During 2012, pursuant to all related approvals, the principal amount of these advances were utilized to increase the share capital of the Company. Additionally, a founding shareholder has provided additional loans and made certain payments on behalf of the Company. All advances, loans and amounts due to shareholders carry finance cost that approximate the prevailing market rates. The breakdown of the advances, loans and amount due to the shareholders and related accrued financial charges are as follows:

	<b>31 March 2015 (Unaudited) SR'000</b>	31 December 2014 (Audited) SR'000	31 March 2014 (Unaudited) SR'000
Mobile Telecommunications Company K.S.C.	<b>2,661,879</b>	2,530,352	2,394,031
Abu Dhabi Investment House	<b>8,413</b>	8,413	8,413
	<b>2,670,292</b>	2,538,765	2,402,444
Accrued financial charges	<b>980,980</b>	936,892	804,161
Total	<b>3,651,272</b>	3,475,657	3,206,605

The above-mentioned advances from shareholders and the related accrued financial charges are currently not scheduled for repayment until the settlement of the existing Murabaha Facility.

**5. DERIVATIVE FINANCIAL INSTRUMENTS**

The fair value of derivative financial instruments (profit rate swaps) (maturing 2018) together with the contract notional amounts are as follows:

		Negative Fair Value		
	Contracts notional amounts SR'000	<b>31 March 2015 (Unaudited) SR'000</b>	31 December 2014 (Audited) SR'000	31 March 2014 (Unaudited) SR'000
Derivative financial instruments held for cash flow hedges	4,315,385	<b>94,513</b>	<b>66,830</b>	52,954

The notional amounts do not reflect the amount of future cash flow involved.

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**6. SHARE CAPITAL**

The share capital of the Company as at 31 March 2015(post capital restructuring) (refer to note 1) comprised of 583,729,175 shares stated at SR 10 per share owned as follows:

	Post-Capital Reduction		Pre-Capital Reduction	
	Number of shares	Share Capital SR'000	Number of shares	Share Capital SR'000
Mobile Telecommunications Company K.S.C.	216,243,575	2,162,436	400,125,067	4,001,251
Saudi Plastic Factory	34,856,143	348,561	63,143,367	631,434
Faden Trading & Contracting Est.	34,125,198	341,252	64,495,867	644,958
Rakisa Holding Company	2,548,320	25,483	4,715,270	47,153
Abu Dhabi Investment House	12,508,485	125,085	23,145,004	231,450
Almarai Company	12,409,162	124,092	22,961,224	229,612
Ashbal Al-Arab Contracting Est.	12,409,162	124,092	22,961,224	229,612
Al Jeraisy Development Company Limited	6,204,581	62,046	11,480,612	114,806
Architectural Elite Est. for Engineering and Contracting	3,243,316	32,433	6,001,253	60,013
Al Sale Al Sharkiyah Company Limited	3,102,290	31,023	5,740,305	57,403
	337,650,232	3,376,503	624,769,193	6,247,692
Public shareholding	246,078,943	2,460,789	455,330,807	4,553,308
<b>Total</b>	<b>583,729,175</b>	<b>5,837,292</b>	<b>1,080,100,000</b>	<b>10,801,000</b>

(Also refer to Note 1)

**7. LOSS PER SHARE**

Losses per share are computed by dividing the losses for the period by the weighted average number of shares outstanding at the period end. The loss per share for the corresponding period has been adjusted to reflect the effect of the capital reduction retrospectively.

**8. ZAKAT**

No zakat provision for the period has been made in these interim financial statements as the Company's zakat base is negative and the Company has incurred losses. The Company has finalized its assessments up to 2008. The Company has also filed its zakat returns for the years 2009 to 2013 with the DZIT but no final zakat assessments of the above-mentioned years have been received.

**NOTES TO THE INTERIM FINANCIAL STATEMENTS (Unaudited) (Continued)**  
**FOR THE THREE MONTH PERIOD ENDED 31 MARCH 2015**

**9. COMMITMENTS AND CONTINGENCIES**

**9.1 Capital Commitments**

The Company has entered into arrangements with suppliers for the purchase of telecommunication equipment. The capital commitments are comprised of the following:

	<b>31 March 2015 (Unaudited) SR'000</b>	31 December 2014 (Audited) SR'000	31 March 2014 (Unaudited) SR'000
Within 12 months	<b>402,365</b>	<b>667,643</b>	360,325
Within 2 to 5 years	<b>2,136,298</b>	<b>2,240,535</b>	-
	<b>2,538,663</b>	<b>2,908,178</b>	360,325

Also see Note 10 for operating lease commitments.

**9.2 Claim by an operator**

On 16 November 2014, the Company has received a request from Etihad Etisalat Company ("Mobily") to begin an Arbitration procedure related to a disputed and rejected claim of SR 2.2 billion and a penalty of SR 58.7 million raised by Mobily against the Company.

As a result of the above, the Company is a party in an arbitration proceeding against Mobily in relation to a disputed claim arising from the Services Agreement ("Agreement") entered into by both parties on 6 May 2008 and the related amendment, addendums and an offer letter, which were implemented by both parties in normal course of operations till Mobily acted unilaterally to revoke these amendment, addendums and an offer letter. The Company considers that this unilateral action from Mobily is the basis of its claims which according to the Company's management have no basis, are unfounded and illegitimate.

Based on external legal and technical advices, the Company consistently believes that Mobily did not have the unilateral right to revoke the amendment, addendums and offer letter, neither by way of terms in the contracts nor under Sharia Law and rejected Mobily's actions and any subsequent invoices which were not in line with the terms of the amendment, addendums and offer letter initially implemented by both parties in normal course of operations.

The arbitration sessions which are in progress, started effective 20 December, 2014 during which the procedures for conducting the arbitration were agreed and Mobily submitted its statement of claim. On 7 January 2015, Zain submitted its first defence memorandum in the arbitration proceedings in which it is stated that Mobily's statement of claim is not sufficiently particularized or detailed as required by law. On 14 February 2015, a hearing was convened at which Mobily requested time to submit a detailed statement of claim. The arbitration panel agreed to the request and asked Mobily to make its submission by no later than 23 May 2015. The panel also granted Zain two and half months from the date of receiving Mobily's detailed statement of claim to submit its response.

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The management believes that the ultimate outcome from the arbitration cannot be determined reliably at this stage and the amounts stated in the Company's books as at 31 March 2015 are adequate and there is no need for any additional provision.

**9.3 Other legal proceedings, penalties and other claims**

The Company in the normal course of business is subject to and also pursuing lawsuits, penalties and fines imposed by the regulator and other claims from suppliers and telecommunication providers. The management of the Company and based on its internal and external lawyers and technical advisors believe that these matters are not expected to have a significant impact on the financial position or the results of operations of the Company.

**10. OPERATING LEASES COMMITMENTS**

The Company leases sites, technical buildings and offices in connection with its operations. The lease commitments relating to such operating leases are as follows:

	<b>31 March 2015 (Unaudited) SR'000</b>	31 December 2014 (Audited) SR'000	31 March 2014 (Unaudited) SR'000
Within 12 months	<b>268,461</b>	275,546	257,367
Within 2 to 5 years	<b>1,073,845</b>	1,102,186	1,029,467
Over 5 years	<b>1,342,306</b>	1,377,732	1,286,833
	<b>2,684,612</b>	2,755,464	2,573,667

**11. SEGMENT INFORMATION**

The objective of the segment reporting standard promulgated by the Saudi Organization for Certified Public Accountants is to disclose detailed information on the results of each of the main operating segments. Given that the requirements of this standard, in terms of the prescribed threshold, taking into consideration the Company's operations which comprise Mobile Voice, Data, Internet and other related communication services which are substantially concentrated in mobile phone services since commencement of its activities, are not met as of the interim balance sheet date, accordingly, the Company's management believes that operating segments information disclosure for the Company is not applicable. The Company carries out its activities in the Kingdom of Saudi Arabia.

**12. COMPARATIVE FIGURES**

Certain comparative figures have been reclassified to conform with the presentation in the current period.

**13. APPROVAL OF INTERIM FINANCIAL STATEMENTS**

These interim financial statements were approved by the Board of Directors on 21 April 2015.